J.C. Penney Company, Inc.
1977 Annual Report

This is JCPenney.

JCPenney is a major retailer engaged in marketing consumer merchandise and services. The Company markets apparel, home and automotive products, drug store merchandise, and insurance, serving consumers principally through stores, including catalog operations, in the United States.

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Annual Meeting

Our Annual Meeting of Stockholders will be held at 10 A.M., Monday, May 15, 1978, at the Alameda Plaza Hotel, Wornall Road at Ward Parkway, Kansas City, Missouri. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 14, 1978.

Supplemental Information

Copies of the Company's Form 10-K annual report for 1977 to the Securities and Exchange Commission and consolidated Employer Information Reports EEO-1 for 1977 year end to the United States Equal Employment Opportunity Commission will be made available upon request to:

Ms. Sylvia A. Dresner
J. C. Penney Company, Inc.
Public Information
1301 Avenue of the Americas
New York, New York 10019
Phone: (212) 957-8170

Copies of J. C. Penney Financial Corporation's annual report are available from:

Mr. Philip G. Rickards
J. C. Penney Financial Corporation
3801 Kennett Pike
P.O. Box 3999
Wilmington, Delaware 19807

Inquiries about your stockholder account should be forwarded to:

J. C. Penney Company, Inc.
Securityholder Services
P.O. Box 3940
Wilmington, Delaware 19807

On the cover:

Posed against the JCPenney building in New York City, the model wears a linen-like jacket, $56, and matching dirndl skirt, $25. Her coat, lined with fabulous fake fur, is $92.

Financial Highlights

(In millions except per share data)

For the Year	1977	1976
Sales	$9,369	$8,354
Per cent increase from prior year	12.1	8.8*
Net income	$ 295	$ 228
Per cent increase from prior year	29.3	20.3
Per cent of sales	3.1	2.7
Per cent of stockholders' equity	15.4	13.4
Net income per share	$ 4.51	$ 3.57
Dividends per share	$ 1.48	$ 1.28
Capital expenditures	$ 285	$ 233

For the Quarters	First		Second		Third		Fourth	
	1977	1976	1977	1976	1977	1976	1977	1976
Sales	$1,862	1,733	1,992	1,839	2,361	2,109	3,154	2,673
Per cent increase from prior year	7.4	16.1	8.3	7.5	11.9	10.2	18.0	4.4*
Cost of goods sold, occupancy, buying, and warehousing costs	$1,324	1,263	1,437	1,342	1,669	1,498	2,189	1,888
Net income	$ 30	30	34	31	75	62	156	105
Per cent increase from prior year	0	478.4	9.0	17.3	20.3	27.7	48.9	(4.0)
Net income per share	$ .46	.47	.52	.49	1.15	.97	2.38	1.64
Dividends per share	$ .37	.32	.37	.32	.37	.32	.37	.32
Common stock price range (high)	$ 45	61	39	56	38	54	37	56
(low)	$ 36	50	33	48	33	48	32	43

**1975 was a 53-week year; on a comparable 52-week basis, sales for the year and quarter increased 10.3 per cent and 10.6 per cent, respectively.*

To Our Stockholders:

Donald V. Seibert, Chairman of the Board

Net income in 1977 increased 29.3 per cent to a record $295 million from $228 million in 1976. On a per share basis, net income was up 26.3 per cent to $4.51 from $3.57 in the prior year.

Sales climbed 12.1 per cent in 1977, bringing the annual gain for the first time in our 75 year history to more than $1 billion. Volume advanced to a record $9,369 million from $8,354 million in 1976. Excluding discontinued supermarket and Italian operations, sales increased 13.5 per cent.

The regular quarterly dividend was raised from 32 cents to 37 cents, payable for the first time on May 1, 1977. The annual dividend rate became $1.48.

First quarter earnings were equal to those of the comparable period in the previous year. In the second quarter, the progressive increase in sales activity offset somewhat the upward pressures of personnel and occupancy related costs. The pace of sales continued to accelerate in the second half of the year, and we had our best December sales gain in more than 40 years.

Interest expense for the year was up 21 per cent, from $88 million to $107 million, due to higher borrowing levels and higher interest rates.

JCPenney stores and catalog continued to be the chief contributors to our increase in sales and earnings. Sales of full line stores in 1977 were $5.5 billion, or 58.7 per cent of total JCPenney sales; $2.2 billion, or 23.9 per cent of sales, came from soft line stores.

Catalog sales passed the $1 billion level for the first time in 1977, increasing 19.1 per cent. Sales through catalog centers in stores were $798 million, with volume through mail order and outlet stores accounting for the remainder. A 2 million square foot distribution facility was opened near Kansas City, Kansas, in 1977, and distribution center openings are scheduled for Reno, Nevada, in 1979, and Manchester, Connecticut, in 1980.

Capital expenditures for the year were $285 million, including the purchase of our headquarters building in New York City. We opened 27 full line and 29 soft line JCPenney stores, adding new store space of 4.5 million gross square feet. Other retailers had formerly leased 30 of these stores.

For 1978, our expansion plans call for the opening of 30 full line and 38 soft line JCPenney stores, 35 drug stores, and one store in Belgium. Capital expenditures, primarily for store and catalog facilities, are expected to reach $300 million.

JCPenney Financial Services, which consists of our insurance companies, had its best year ever. Combined net income from all insurance operations was up 50 per cent, from $10 million to $15 million, due primarily to improved underwriting experience in both casualty and life insurance. In-store insurance centers, started in 1976 in three Louisville, Kentucky, stores, were established in four other full line stores in Fort Wayne, Indiana, and Dayton, Ohio, during the year.

Sales of our operations in Belgium rose to $625 million, but earnings were slightly under the previous year's level due to increased operating expenses and exchange losses.

As the result of a 13.7 per cent increase in sales over 1976, The Treasury stores' loss declined modestly.

Drug store sales climbed to $298 million compared with $258 million in 1976. The 15.6 per cent sales gain coupled with improved gross margin increased earnings. Thirty-three new drug stores were opened in 1977.

Two operations were discontinued in 1977 because we determined they could not meet our growth and profit criteria. Supermarket operations, which were originally thought to be necessary traffic builders for our Treasury discount stores, had been unprofitable for several years. Our Italian operations were sold to a leading Italian retailer because of the difficulties involved in building a viable store base in Italy.

We see sales of our industry rising by about 9 per cent in 1978. Price increases should account for about 5 per cent of the gain, and the remainder would come from real sales growth. Consumer spending on household durables is expected to approximate that of apparel.

The economic expansion should continue through the end of 1978, although gains in consumer spending may moderate. The sizeable gains in employment and expected increases in consumer income will continue to provide a good retail sales climate.

We continue to focus our efforts on areas where we can best and most profitably serve the consumer. The results of the past year indicate that we are doing a better job of merchandising, marketing, and presentation to meet the needs and wants of different markets. While quality and value remain the major elements in our broad-based consumer franchise, recognition among shoppers is building in another area—fashion. We believe there is a growing awareness of JCPenney as a store where the middle income customer will find timely fashion merchandise.

Walter J. Neppl, President

Our efforts to capture a greater share of the fashion dollars that JCPenney customers spend at other retailers have so far been centered on the women's area. After a successful pilot run, our women's fashion program was integrated into our overall merchandising and marketing plan late last year. This program is already influencing what we are doing in men's, children's, home furnishings', and other fashion areas.

In the coming year, advertisements communicating our quality, price, and fashion messages will have a common theme: "This is JCPenney." Our ads will feature the timely merchandise you can expect to find in a JCPenney store today. Where we are now and what we've been doing since our founding 75 years ago is the subject of the essay that begins on page 5.

During 1977, Oscar L. Dunn, Edward J. Mortola, and Jane Cahill Pfeiffer were elected to our Board of Directors.

Our commitment to our employees, customers, and the communities where we do business manifests itself in several ways. These include charitable contributions and community involvement as well as activities in energy conservation, resource recovery, minority economic development, and providing equal employment opportunities, all of which are described on page 4 of this report.

What we said back in 1927, on the occasion of our twenty-fifth anniversary, is equally true now:

"At this milepost in our history, we pause only long enough to express our thanks to the great American people for their confidence and appreciation of our efforts in their behalf and to offer the assurance that in the future as in the past we shall strive to serve not only well but better and better with each succeeding business day."

Donald V. Seibert

Donald V. Seibert, Chairman of the Board

Walter J. Neppl

Walter J. Neppl, President

Corporate Responsibility

The Company recognizes that it has the responsibility and the opportunity to contribute to the solution of social and environmental problems. Penney's approach is to address those issues which fall within its sphere of competence and to build societal and environmental concerns into the Company's policies, planning process, and day-to-day management. The responsibility for performance is shared by all employees. This page summarizes the results of some of these efforts.

Charitable contributions

In 1977, as in 1976, charitable contributions totaled $3 million. This represented .6 per cent of pre-tax income in 1977.

More than half of the Company's charitable contributions are made through stores.

A program to match employee contributions to colleges and universities has been established as an added dimension of the Company's overall giving effort.

Community involvement

The Company recognizes that a healthy community is essential to a viable business operation. JCPenney is a key partner in its communities as an employer, a purchaser of goods and services, a taxpayer, and an involved citizen.

Employees actively participate in a wide range of local volunteer programs. A community service award was introduced last year to recognize outstanding service, and 73 persons were singled out for commendation.

Six Company employees served in on-loan assignments during 1977.

Energy conservation

Efforts in this area have been stepped up with the creation of an energy task force and the appointment of a Manager of Energy Conservation Programs. The task force will monitor energy consumption, study new or alternative sources, and coordinate the development of and transition to new equipment and sources.

Power management units to control heating and air-conditioning consumption were installed in 28 additional stores in 1977, bringing the total units in place to 464.

New conservation equipment developed last year includes a device to insure maximum operating efficiency of large air-conditioning compressors and an automatic lighting control system. Both devices are now part of the Company's standard building criteria for all new stores.

Progress continues to be made toward the corporate objective of a 40 per cent per square foot reduction in energy consumption from the base year of 1973.

Resource recovery

Some 104 stores and field facilities participated in the Company's waste recycling program in 1977, up from 75 in 1976. This program makes sense environmentally and economically; waste is recycled, and stores and other facilities realize savings in waste disposal costs.

Catalog centers recycled over 7,500 tons of waste paper last year. Catalog also introduced a program to reuse store shipping cartons. This effort accounted for the reuse of 285,000 cartons, or 613 tons of paper. In this program, two centers contracted with workshops employing handicapped persons to prepare the cartons for reuse.

Employment

Year end employment totaled approximately 193,000, of whom 185,060 were employed in the continental United States. Summaries based upon the Company's consolidated Employer Information Reports EEO-1 to the United States Equal Employment Opportunity Commission for the years 1977, 1976, and 1975 appear below:

	1977		
Category	Total	Female	Minority
Officials, managers, and professionals	25,602	9,785	1,960
Sales workers	84,513	68,448	8,196
Office and clerical workers	42,757	38,124	5,590
Technicians, craftsmen, and operatives	13,205	7,061	1,856
Laborers and service workers	18,983	8,035	3,457
Total	185,060	131,453	21,059

	1976		
Category	Total	Female	Minority
Officials, managers, and professionals	24,369	9,094	1,772
Sales workers	77,062	62,338	7,082
Office and clerical workers	41,867	37,234	5,029
Technicians, craftsmen, and operatives	13,215	7,019	1,856
Laborers and service workers	17,888	7,082	3,310
Total	174,401	122,767	19,049

	1975		
Category	Total	Female	Minority
Officials, managers, and professionals	23,537	8,406	1,445
Sales workers	78,701	63,968	6,794
Office and clerical workers	43,686	38,450	4,973
Technicians, craftsmen, and operatives	13,103	6,657	1,786
Laborers and service workers	17,797	7,050	3,183
Total	176,824	124,531	18,181

Included among the officials, managers, and professionals in 1977 were 1,814 management trainees, of whom 771 were females and 342 were minorities. The comparable figures for 1976 and 1975, respectively, were 1,919 and 1,406 trainees, of whom 705 and 518 were females and 336 and 257 were minorities.

An Affirmative Action Programs Manager was added to the staff of the Personnel Department in 1977 to strengthen further the Company's equal employment opportunity commitment and performance.

Efforts continued in the development of policies and programs to provide affirmative action with regard to handicapped persons, veterans, and disadvantaged individuals.

Minority economic development

Purchases of products and services from minority owned businesses increased in 1977 to $28 million, up from $17 million in 1976. This represented business relationships with 450 minority suppliers. The Company continued its active relationship with the National Minority Purchasing Council and its regional councils.

Eleven active accounts were maintained with 10 minority owned banks. Year end balances with these banks totaled $.3 million in 1977 and in 1976. At year end, lines of credit with nine of these banks amounted to $1.5 million, compared with $1.4 million in 1976.

At right: vest, $25; polyester big top, $21; cotton pants, $25.


This is JCPenney

Main Street

The signpost may say Colorado, Broad, or Grand, but in countless villages, towns, and small cities, it's "Main Street." JCPenney began as a merchant on "Main Street," and we're still there. Take Pasadena, where we're just a block or so from the Post Office.

The historical root of urban America, "Main Street" often got bypassed following World War II by an auto-oriented society and the development of the regional shopping center. Today, on "Main Street" in many small markets, we are following one of two retailing strategies. In small markets outside the trading area of large markets, we are broadening our apparel and home furnishings offerings. In those close to a regional center, our assortments are more basic in nature, and we include the discounter as a competitor. In many stores, we also are adding such lines as housewares, gifts, cosmetics, fine jewelry, and sporting goods.

We recognize that in many small markets, we are too old and too small. We are correcting this via an expansion and renovation program that has been accelerating. True, small market sales will be a shrinking per cent of our total volume, but the dollars will grow and continue to generate profits.

A "Main Street" of Kemmerer, Wyomin
was renamed J. C. Penney Avenue last
April in recognition of the opening of our
first store there 75 years earlier. Back the
our founder told his store associates: "If
business can be built on the principles o
the Golden Rule, and I firmly believe it ca
we shall go forward and some day we sh
add to this one unit another store, and
another store, and some day we might ha
as many as ten stores."

Left: pure cotton Polynesian print blouse, $32, and skirt, $28.
Right: textured polyester/cotton dress, $44.

The Big Apple

JCPenney's national headquarters has been located in New York City since 1914. In 1927, on the Company's twenty-fifth anniversary we owned an 18-story building, "carrying an area of 569,426 square feet." At the time, the Company was operating in 45 states, had nearly 900 stores and sales of $152 million.

Fifty years later, in 1977, we purchased the building that has served since 1964 as our national headquarters—all 45 stories and 1.5 million square feet. This is in addition to leased office space in three nearby buildings. The reason for the acquisition was the same as that which prompted the initial move East in a Company that was expanding westward: "Since

apparel and other soft lines are JCPenney's main merchandise groups, New York City is the natural center for our business."

In 1929, JCPenney stock was listed on the New York Stock Exchange.

In 1930, we opened in New York one of the largest and best equipped merchandise testing facilities in the country. The Merchandise Testing Center, as it came to be called, now occupies nearly two full floors of the headquarters building in New York City and a 200-acre test site in East Lyme, Connecticut.

One of our anniversary advertisements in 1927 put it not immodestly: "Big Oaks from Little Acorns Grow."

All wool tweed coat, $92.

Polyester jersey evening dress, $50.

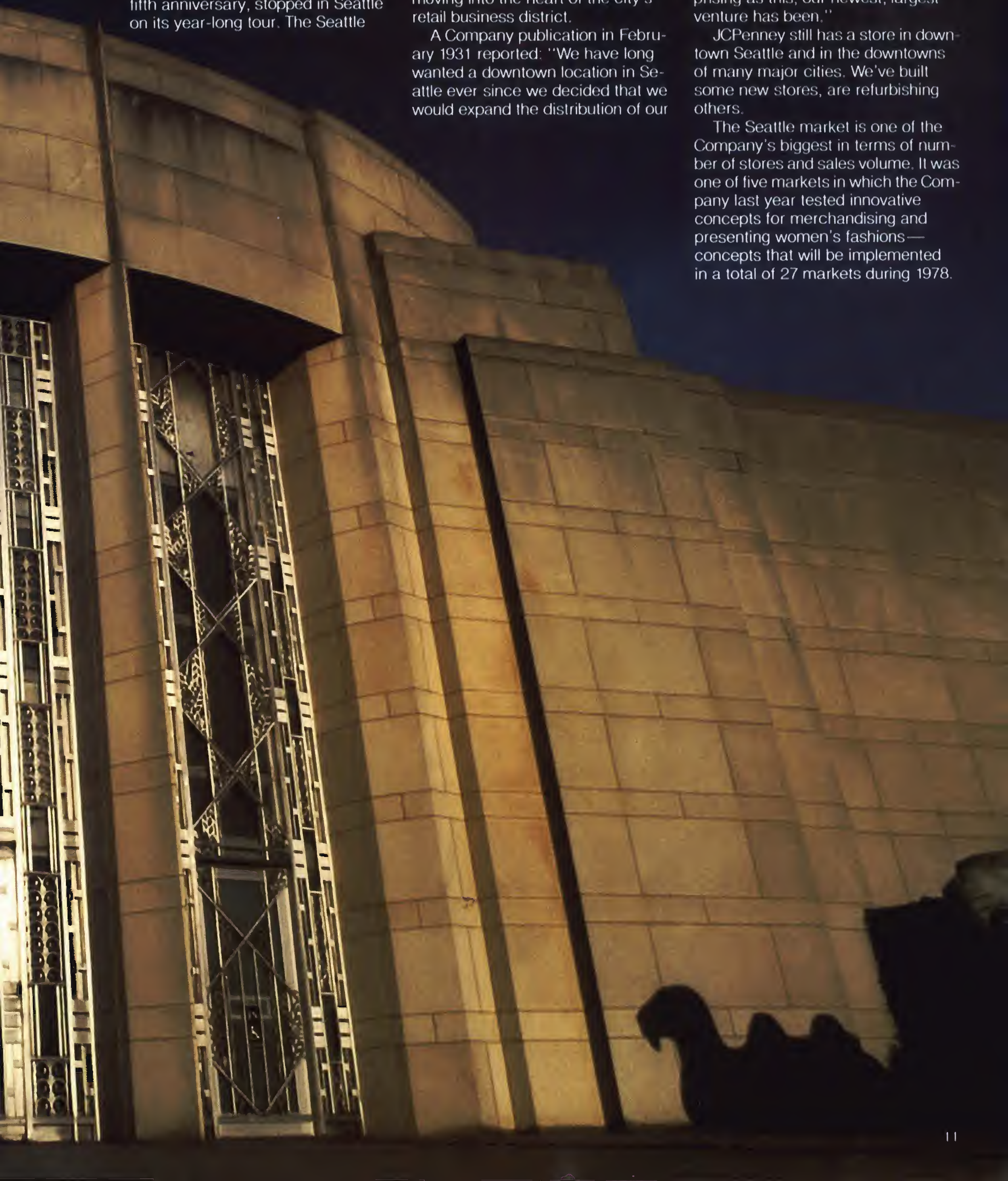
Downtown

"Turn-of-the-Century America," an exhibition of paintings, graphics, and photographs which we sponsored in celebration of our seventy-fifth anniversary, stopped in Seattle on its year-long tour. The Seattle Art Museum was host to the show, and its Volunteer Park building provided a 1930's Art Deco background for our model. About the time this building was going up, JCPenney was moving into the heart of the city's retail business district.

A Company publication in February 1931 reported: "We have long wanted a downtown location in Seattle ever since we decided that we would expand the distribution of our store units into the larger cities. The new Seattle store will be our largest store unit. How long it will remain the largest in our Organization may depend upon factors as surprising as this, our newest, largest venture has been."

JCPenney still has a store in downtown Seattle and in the downtowns of many major cities. We've built some new stores, are refurbishing others.

The Seattle market is one of the Company's biggest in terms of number of stores and sales volume. It was one of five markets in which the Company last year tested innovative concepts for merchandising and presenting women's fashions—concepts that will be implemented in a total of 27 markets during 1978.



The Regional Shopping Center

"Growing with the nation" was the legend on the medallion which was struck to mark the Company's Golden Jubilee in 1952. "Going" with the nation would have been equally apt and prophetic. For the movement of increasing numbers of middle income people to the suburbs gave us little choice but to follow.

Our initial venture into a regional shopping center was at King of Prussia, Pennsylvania. It was 1962—the same year we issued our first JCPenney catalog. Since that time, our physical expansion has been measured largely in terms of full line stores in shopping centers in metropolitan markets.

The full line store program has required a substantial investment to build sales in furniture, major appliances, automotive equipment, leisure and sporting goods, and home improvement lines. We are now able to put the proper emphasis on both hard lines and traditional soft goods categories to achieve our market share objectives.

Full line stores offer us a major opportunity to make market gains in the area where profit margins are the highest—fashion. These stores have placed JCPenney in direct competition with department stores in regional shopping centers. Strengthening the fashion component of our value equation, which also includes price, quality, and timeliness, is what JCPenney is about today.

Spring's new color mixes: reversible vest, $25; long sleeve shirt, $24; pants, $26; short sleeve shirt, $19; skirt, $24.

Catalog

Next Spring, with the opening of our Reno, Nevada, distribution center, shown here under construction, JCPenney will offer nationwide catalog service. We plan to open catalog sales desks in more than 250 JCPenney stores in California, Oregon, Washington, and Nevada between January and April of 1979.

Like our four existing centers, Reno will combine the latest in computer and materials-handling technology, enabling us to be highly efficient and competitive in this exciting area of retailing.

Starting with just three catalogs in 1962, we circulated 22 separate catalogs—110 million copies in all—in 1977. We look upon these books not only as sales producers but also as institutional advertising,

Coordinates of wool/polyester tweed blouson jacket, $35; pants, $28. Cowl sweater, $15.

constantly reminding our customers of JCPenney value and fashion. Some 47 per cent of our customers report that in addition to ordering from catalog, they use our catalogs to plan JCPenney store purchases.

Looking through the archives, we find that JCPenney was in the mail order business very early in its history. Back in 1911-1912, the St. Anthony, Idaho, store, one of our "28 busy stores" at the time, mailed a flyer to its customers offering a choice of four men's suits for $9.90. A swatch of each fine wool fabric was attached.

Statement of Income
Statement of Reinvested Earnings

(In millions except per share data)

Statement of Income	52 weeks ended January 28, 1978	52 weeks ended January 29, 1977
Sales	$9,369	$8,354
Costs and expenses		
Cost of goods sold, occupancy, buying, and warehousing costs	6,619	5,991
Selling, general, and administrative expenses	2,112	1,864
Interest, after deduction of income before income taxes of J.C.Penney Financial Corporation	107	88
Total costs and expenses	8,838	7,943
Income before income taxes and other unconsolidated subsidiaries	531	411
Income taxes	253	194
Income before other unconsolidated subsidiaries	278	217
Net income of other unconsolidated subsidiaries	17	11
Net income	$ 295	$ 228
Net income per share	$ 4.51	$ 3.57

Statement of Reinvested Earnings		
Reinvested earnings at beginning of year	$1,308	$1,157
Net income for the year	295	228
Changes in unrealized decline in value of equity securities	(1)	4
Dividends	(97)	(81)
Reinvested earnings at end of year	$1,505	$1,308

See Summary of Accounting Policies on page 19 and 1977 Financial Review on pages 20 to 27.

Management's Discussion of Recent Results

1977 Compared with 1976

Sales for 1977 increased 12.1 per cent over 1976, with inflation accounting for approximately 4.5 per cent. During 1977, the Company sold its stores in Italy and discontinued its supermarket operations. Sales increased 13.5 per cent excluding discontinued supermarket and Italian operations.

Net income in 1977 increased 29.3 per cent over 1976. Contributing to the increase, in addition to sales, was an improvement in gross margin despite a rise in promotional activity. Selling, general, and administrative expenses increased as a per cent of sales primarily due to personnel-related costs. Interest expense increased 21.0 per cent in 1977 because of higher interest rates and higher borrowing levels.

For additional discussion and analysis of 1977 compared with 1976, see To Our Stockholders on pages 2 and 3 and the 1977 Financial Review on pages 20 to 27.

1976 Compared with 1975

Sales for the 52 weeks of 1976 increased 8.8 per cent over the 53 weeks of 1975. On a comparable 52-week basis, 1976 sales were 10.3 per cent higher than in 1975, with inflation accounting for approximately 4 per cent.

Net income in 1976 increased 20.3 per cent from the 1975 level. Contributing to the increase, in addition to sales, was greater control over costs and expenses as compared with 1975. Gross margin improved despite a moderate rise in markdown activity. Selling, general, and administrative expenses increased as a percentage of sales due to higher personnel-related costs and upward inflationary pressure in other areas. Interest expense declined 12.7 per cent in 1976 as a result of lower interest rates.

Balance Sheet

(In millions)

Assets	January 28, 1978	January 29, 1977
Current assets		
Cash and short term investments	$ 73	$ 113
Receivables, net	624	619
Merchandise inventories	1,706	1,263
Prepaid expenses	69	67
Total current assets	2,472	2,062
Investment in and advances to unconsolidated subsidiaries	443	402
Properties, net	1,164	1,001
Other assets	27	19
	$4,106	$3,484

Liabilities and Stockholders' Equity	January 28, 1978	January 29, 1977
Current liabilities		
Accounts payable and accrued liabilities	$ 950	$ 759
Dividend payable	24	20
Income taxes	93	50
Deferred credits, principally tax effects applicable to installment sales	346	290
Total current liabilities	1,413	1,119
Long term debt	415	355
Deferred credits, principally tax effects applicable to depreciation	111	93
Stockholders' equity		
Preferred stock without par value: Authorized, 5 million shares—issued, none		
Common stock, par value 50¢: Authorized, 75 million shares—issued, 65.9 million shares	662	609
Reinvested earnings	1,505	1,308
Total stockholders' equity	2,167	1,917
	$4,106	$3,484

See Summary of Accounting Policies on page 19 and
1977 Financial Review on pages 20 to 27.

Statement of Changes in Financial Position

(In millions)

	52 weeks ended January 28, 1978	52 weeks ended January 29, 1977
Funds were generated from:		
Operations		
Net income	$ 295	$ 228
Deduct undistributed net income of unconsolidated subsidiaries	(40)	(29)
Depreciation and amortization	96	88
Deferred credits, principally tax effects applicable to depreciation	18	9
Stock issued for Company contributions to savings and profit-sharing and stock bonus plans	17	29
Total	386	325
External sources		
Disposition of properties	26	40
Increase in long term debt	64	—
Stock issued for employee contributions to savings and profit-sharing plan	36	33
(Increase) decrease in investment in and advances to unconsolidated subsidiaries	(2)	2
Total	124	75
Total funds generated	510	400
Funds were used for:		
Dividends	97	81
Capital expenditures	285	233
Retirement of long term debt	4	11
Change in other assets	8	—
Total funds used	394	325
Increase in working capital	116	75
Increase in other deferred credits, principally tax effects applicable to installment sales	56	45
Increase in working funds	$ 172	$ 120

Analysis of Changes in Working Capital and Working Funds

Cash and short term investments	$ (40)	$(101)
Receivables, net	5	155
Merchandise inventories	443	72
Accounts payable and accrued liabilities	(191)	(36)
Income taxes and deferred credits	(99)	(9)
Other	(2)	(6)
Increase in working capital	116	75
Deferred credits, principally tax effects applicable to installment sales	56	45
Increase in working funds	$ 172	$ 120

See Summary of Accounting Policies on page 19 and
1977 Financial Review on pages 20 to 27

Summary of Accounting Policies

The dominant portion of JCPenney's operations consists of selling merchandise and services to consumers through stores, including catalog operations. The accounting policies employed by the Company are in accordance with generally accepted accounting principles. In those instances in which more than one generally accepted accounting principle can be applied, the Company has adopted the accounting principle that it believes most accurately and fairly reflects the situation, as described in the following paragraphs.

Definition of Fiscal Year. JCPenney's fiscal year ends on the last Saturday in January. Fiscal year 1977 ended January 28, 1978; fiscal year 1976 ended January 29, 1977. Each year comprised 52 weeks. The accounts of several subsidiaries, including JCPenney Financial Services, are on the calendar year basis.

Basis of Consolidation. The consolidated financial statements present the results of all domestic and European merchandising operations and those real estate subsidiaries whose properties are presently being utilized in merchandising operations. Not consolidated are J. C. Penney Financial Corporation, JCPenney Financial Services, JCP Realty, Inc., and several small non-retail subsidiaries, which are accounted for on the equity basis.

The income before income taxes of J. C. Penney Financial Corporation is included in the statement of income as a reduction of interest expense. The combined income of all other unconsolidated subsidiaries is included as a single item in the statement of income.

Sales. Sales include merchandise and services, net of returns, and exclude value added and sales taxes.

Accounts Receivable. Finance charge income arising from customer accounts receivable is treated as a reduction of selling, general, and administrative expenses in the statement of income.

Merchandise Inventories. Substantially all merchandise inventories are valued at the lower of cost (last-in, first-out) or market, determined by the retail method.

Properties. Interest and certain other carrying costs on construction in progress and land held for future use are capitalized in order to reflect the complete cost of properties. Maintenance and repairs are charged to current operations as incurred, and improvements are capitalized.

Depreciation. The cost of buildings and equipment is allocated to revenues on a straight line basis over the estimated useful lives of the assets. The principal annual rates used in computing depreciation are 3 per cent for store buildings, 2-1/2 per cent to 4 per cent for warehouse and office buildings, and 10 per cent for fixtures and equipment. Improvements to leased premises are amortized on a straight line basis over the term of the lease or the useful life of the improvement, whichever is shorter.

Income Taxes. JCPenney uses the "flow through" method whereby income taxes are reduced currently for the amounts of investment credits.

Deferred Charges. Expenses associated with the opening of new stores are written off in the year of store opening, except those of stores opened in January, which are written off in the following fiscal year. Catalog preparation and printing costs are written off over the estimated productive lives of the catalogs, not to exceed six months.

Pension Cost. The cost of pension benefits has been determined by the entry age normal method. Unfunded actuarial liabilities are amortized over a period not to exceed 30 years.

Accountants' Report

To the Stockholders and Board of Directors of J.C. Penney Company, Inc.

We have examined the balance sheet of J.C. Penney Company, Inc. and consolidated subsidiaries as of January 28, 1978 and January 29, 1977, and the related statements of income, reinvested earnings, and changes in financial position for the 52 week periods then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of J. C. Penney Company, Inc. and consolidated subsidiaries at January 28, 1978 and January 29, 1977, and the results of their operations and changes in their financial position for the 52 week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the accompanying statistical data on pages 28, 29, 30, and 31 present fairly the information shown therein.

Peat, Marwick, Mitchell & Co.

345 Park Avenue
New York, N. Y.
March 20, 1978

1977 Financial Review

Overview

Sales in 1977 were $9.4 billion, an increase of 12.1 per cent over the $8.4 billion in 1976. Following is a breakdown of the Company's sales:

(In millions)	1977	1976	Per cent increase: All units	Per cent increase: Comparative units
JCPenney stores	$7,740	$6,839	13.2	7.7
Catalog	1,010	848	19.1	n/a
Other retail operations	1,252	1,073	16.6	14.3
Catalog sales centers	(798)	(652)	n/a	n/a
	9,204	8,108	13.5	8.6
Supermarket and Italian operations	165	246	—	—
Total	$9,369	$8,354	12.1	8.5

Catalog merchandise sold through catalog sales centers located in the Company's stores is included in the sales of those stores. Total catalog sales shown above include sales by catalog sales centers, by outlet stores, and through mail order. The duplication with respect to sales by catalog sales centers is eliminated in the line entitled catalog sales centers. Comparative units are those in operation throughout both 1977 and 1976. In 1977, the Company sold its operations in Italy and discontinued its supermarket operations. For further analyses of sales, see the discussion below and the Ten Year Operations Summary on page 29.

In the 10 years ended January 28, 1978, sales have grown at the compound annual rate of 12.3 per cent.

Net income was $295 million in 1977, an increase of 29.3 per cent over the $228 million earned in 1976. Net income per share, based on the weighted average number of shares outstanding, was $4.51 in 1977, an increase of 26.3 per cent over the $3.57 per share earned in 1976, when there were approximately 1.5 million fewer shares outstanding.

During 1977, the Company sold its Italian operations and discontinued its supermarket operations, both unprofitable in recent years. The losses incurred in 1977 from these transactions were not material.

In the 10 years ended January 28, 1978, net income per share has increased at the compound annual rate of 9.7 per cent.

The quarterly dividend declared was increased 5 cents per share in 1977 to 37 cents per share, or an annual rate of $1.48 per share. Dividends declared totaled $97 million in 1977, or 32.8 per cent of net income, compared with $81 million in 1976.

Retail units and net selling space increased as follows:

	1977 Number of units	1977 Net selling space (000 sq. ft)	1976 Number of units	1976 Net selling space (000 sq. ft)
JCPenney stores				
Additions				
Full line	27	2,134	50	4,390
Soft line	29	652	36	880
Total	56	2,786	86	5,270
Closings				
Full line	2	80	—	—
Soft line				
Relocations	29	347	46	724
Other	20	353	10	158
Total	51	780	56	882
Increase, net	5	2,006	30	4,388
Other retail operations, net	28	338	11	241
Modifications and expansions, net	—	128	—	(59)
Subtotal	33	2,472	41	4,570
Supermarket and Italian operations	(22)	(1,165)*	(3)	(5)
Net increase in store space	11	1,307	38	4,565
Total in operation at year end	2,100	63,733	2,089	62,426

**Includes 661 thousand square feet of net selling space for supermarkets previously operated in 36 The Treasury stores.*

In addition, the Company opened a 2 million square foot catalog distribution center near Kansas City, Kansas, in August 1977. A schedule of store space opened in 1977 appears on page 28. A history of retail units and net selling space is included in the Ten Year Operations Summary on page 29.

JCPenney Stores

JCPenney stores contributed to sales as follows:

(In millions)	1977	1976	Per cent increase All units	Per cent increase Comparative units
Full line	$5,499	$4,706	16.8	9.3
Soft line	2,241	2,133	5.1	4.3
Total	$7,740	$6,839	13.2	7.7

JCPenney full line stores are generally major tenants in large shopping centers located throughout the United States. These department stores offer a wide selection of family apparel, home furnishings and household textiles, leisure time goods, automotive equipment, and household durables. In most stores, about two-thirds of net selling space is devoted to apparel and other soft line merchandise. Most of these stores have a catalog sales center.

At year end, the Company had 460 full line stores in operation. These stores vary in size and average 88,000 square feet of net selling space. For full line stores in operation throughout 1977, sales per square foot of net selling space were approximately $138. The Company's store expansion program continues to be primarily based upon the opening of full line stores in shopping centers of major metropolitan markets.

Full line stores' profit increased in 1977 over the prior year due to higher sales, continued improvement in gross margin, and effective control of operating expenses.

JCPenney soft line stores sell principally apparel and household textile merchandise. These stores vary widely in size and average 12,000 square feet of net selling space. Most of these stores also have a catalog sales center, which contributes importantly to sales and profits. Most are located in communities where the Company has operated stores for many years.

At year end, the Company had 1,226 soft line stores in operation. For soft line stores in operation throughout 1977, sales per square foot of net selling space were approximately $152. The Company's plans for its soft line stores operation call for improving productivity in existing markets and expanding into new markets. These plans include modernization and relocation, as well as the leasing of existing retail space when opportunities become available.

Soft line stores also experienced an increase in profit in 1977 as a result of improved gross margin and expense control.

Catalog

Catalog operations serve customers who order merchandise through catalog sales centers in the Company's stores or directly by mail from one of its four distribution centers as well as those customers who purchase merchandise in catalog outlet stores. This operation expands the Company's overall retailing capabilities by offering a wide range of apparel, home furnishings, leisure time goods, and automotive equipment.

The Company plans to open two additional distribution centers by the end of 1980.

The Company publishes two general catalogs: a fall and winter catalog and a spring and summer catalog. These are supplemented by special catalogs, including Christmas and other seasonal and promotional catalogs.

The following table shows the components of catalog sales:

(In millions)	1977	1976	Per cent increase All units	Per cent increase Comparative units
Sales centers				
JCPenney stores				
Full line	$ 350	$272	28.6	16.9
Soft line	429	367	16.8	15.3
Other retail operations	19	13	43.3	19.7
	798	652	22.3	16.0
Mail order	133	125	6.2	n/a
Outlet stores	79	71	12.4	7.6
Total	$1,010	$848	19.1	n/a

The number of catalog sales centers at each year end is shown below:

	1977	1976
JCPenney stores		
Full line	385	359
Soft line	1,054	1,027
Other retail operations	67	56
Total	1,506	1,442

Increased sales in 1977 improved Catalog's profit. The improvement was partially offset by the preopening expenses and start up costs of the new distribution center near Kansas City, Kansas.

Belgian, The Treasury, and Drug Stores

Sales of other retail operations were as follows:

(In millions)	1977	1976	Per cent increase: All units	Per cent increase: Comparative units
Belgian stores	$ 625	$ 526	18.7	17 4
The Treasury stores	329	289	13.7	13.7
Drug stores	298	258	15.6	9.4
Total	$1,252	$1,073	16.6	14.3

Belgian stores, operating under the name Sarma, sell general merchandise, food, and apparel. Belgian operations include sales of $257 million to franchised stores, of which 197 were in operation at year end. Food sales accounted for 63 per cent of 1977 sales.

At year end, there were 78 Sarma stores with an average of 23,000 square feet of net selling space. One store was opened and one store was closed during 1977.

In local currency, sales of all units and comparative units increased 8.0 per cent and 6.7 per cent, respectively.

Net assets were $70 million at year end 1977, compared with $66 million at year end 1976.

Belgian operations experienced a slight decline in profit in 1977 due to increased operating expenses and exchange losses. The translation of foreign currency financial statements decreased net income 3 cents per share in 1977 compared with a negligible effect in 1976.

The Treasury stores are freestanding discount stores averaging 97,000 square feet of net selling space.

As a result of the 13.7 per cent increase in sales over 1976, The Treasury stores' loss in 1977 declined modestly.

Drug stores, operating under the name Thrift Drug or The Treasury Drug Center, average 8,000 square feet of net selling space and offer prescription drugs, health and beauty aid products, and other typical drug store merchandise. During 1977, 33 stores were opened and five stores were closed. At year end, the Company operated 299 drug stores, of which 57 had catalog sales centers.

Drug stores' profit increased in 1977 as a result of higher sales and improved gross margin.

Unconsolidated Subsidiaries

Investment in and advances to unconsolidated subsidiaries were $443 million at year end 1977, compared with $402 million at year end 1976. The following tabulation shows a breakdown of the investment, stated at equity in net assets, and advances:

(In millions)	January 28 1978	January 29 1977
J.C.Penney Financial Corporation	$331	$308
JCPenney Financial Services	116	92
JCP Realty, Inc.	(6)	1
Other	2	1
Total	$443	$402

J. C. Penney Financial Corporation, a wholly owned, unconsolidated subsidiary, finances JCPenney's customer receivables. Financial charges JCPenney a discount on the receivables purchased, which is calculated to produce earnings sufficient to cover Financial's fixed charges, chiefly interest on borrowings, at least one and one-half times.

To finance its purchases of receivables, Financial sells its short term notes (commercial paper and master notes) directly to investors and from time to time issues long term debt and utilizes short term bank borrowings.

Following is information regarding borrowings and interest rates:

	1977	1976
Average short term borrowings, net of short term investments (In millions)	$605	$613
Average short term rate	5.8%	5.3%
Average rate of interest paid on total debt	6.7%	6.2%

During March 1977, Financial sold $37.5 million of 8-7/8% senior notes and $12.5 million of 9-1/4% subordinated notes, thus completing the second half of a $100 million note issue under an agreement with an institutional investor.

In January 1978, Financial entered into an agreement with a group of institutional investors to sell $100 million of 8-5/8% senior notes due April 1, 1998. Financial is expected to sell one half of the dollar amount of these notes in April 1978 and the balance in October 1978.

Following is the condensed balance sheet of Financial:

(In millions)	January 28 1978	January 29 1977
Assets		
Customer receivables	$1,840	$1,413
Other	14	45
	$1,854	$1,458
Liabilities and equity		
Notes payable	$ 846	$ 550
Accrued liabilities	15	12
Due to JCPenney	92	71
Long term senior debt	545	504
Long term subordinated debt	25	13
Equity of JCPenney	331	308
	$1,854	$1,458

None of Financial's obligations is guaranteed by JCPenney. At year end, Financial had confirmed lines of credit with 532 banks totaling $953 million, including $873 million available to either JCPenney or Financial, none of which was in use.

The complete financial statements of J.C. Penney Financial Corporation are contained in its 1977 annual report, which is available upon request.

JCPenney Financial Services consists of the operations of the Company's insurance subsidiaries. These subsidiaries market life and health insurance and automobile and homeowners casualty insurance.

The insurance subsidiaries' profit increased sharply in 1977 over 1976 due primarily to improved underwriting experience.

Combined financial information on the insurance operations, in accordance with generally accepted accounting principles, is as follows:

Summary of operations

(In millions)	Year ended December 31 1977	1976
Life and health		
Premiums written	$80	$72
Premiums earned	$75	$67
Investment income	11	11
Total revenues	86	78
Benefits, claims, and expenses	70	63
Income before income taxes	16	15
Casualty		
Premiums written	$64	$55
Premiums earned	$60	$49
Investment income	5	4
Total revenues	65	53
Claims and expenses	61	53
Income before income taxes	4	—
Combined		
Income before income taxes	$20	$15
Income taxes, net of tax loss carryforward in 1977 of $1 million	5	5
Net income	$15	$10

Balance sheet

(In millions)	December 31 1977	1976
Assets		
Bonds, at amortized cost (market: $203 in 1977 and $158 in 1976)	$207	$157
Equity securities, at lower of aggregate cost or market	20	28
Loans	33	34
Real estate, net	20	21
Deferred policy acquisition costs	45	37
Other	18	13
	$343	$290
Liabilities and equity		
Policy and claims reserves	$189	$163
Mortgage obligation	10	10
Income taxes and other liabilities	28	25
Due to JCPenney	5	5
Equity of JCPenney	111	87
	$343	$290

JCP Realty, Inc. is engaged in the development and operation of shopping centers through participation in joint ventures.

At year end, Realty had interests in 26 shopping centers, of which 14 were in operation, six were under construction, and six were in the planning stage.

Realty continued to record a profit in 1977 and at year end had advanced $15 million to JCPenney

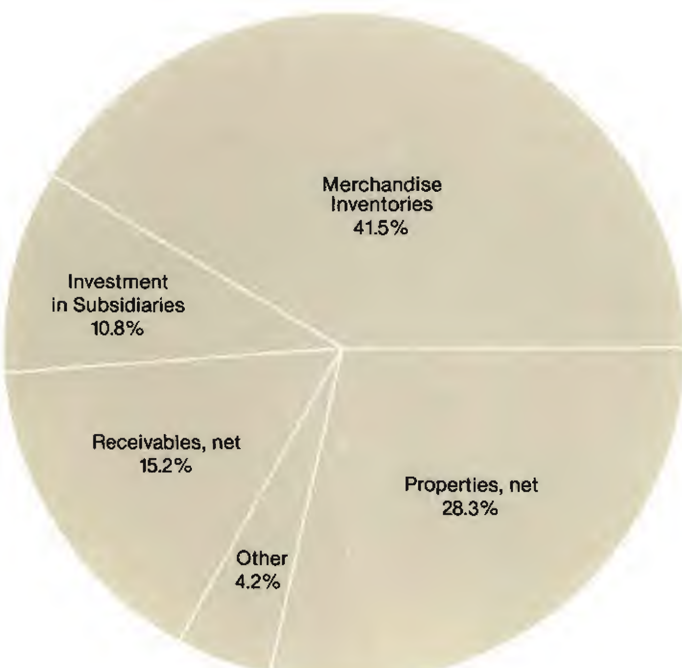
Assets

Receivables were as follows:

(In millions)	January 28 1978	January 29 1977
Customer receivables		
Regular charge	$1,761	$1,499
Time payment	494	376
	2,255	1,875
Less receivables sold to J. C. Penney Financial Corporation	1,840	1,413
	415	462
Due from J. C. Penney Financial Corporation	92	71
Other receivables	162	123
	669	656
Less allowance for doubtful accounts (2% of customer receivables)	45	37
Receivables, net	$ 624	$ 619

Customer receivables due after one year were approximately $393 million at year end 1977, compared with $320 million at year end 1976.

Merchandise inventories at year end 1977 were $1,706 million, an increase of 35.0 per cent from the $1,263 million at year end 1976. Substantially all inventories are valued at the lower of cost (last-in, first-out) or market, determined by the retail method. If the first-in, first-out method of inventory valuation had been used by the Company, inventories would have been $122 million higher at year end 1977 and $109 million higher at year end 1976.



Properties at year end were as follows:

(In millions)	1977	1976
Land	$ 102	$ 82
Buildings	430	281
Fixtures and equipment	811	771
Leasehold improvements	152	172
Construction in progress and land held for future use	97	108
	1,592	1,414
Less accumulated depreciation and amortization	428	413
Properties, net	$1,164	$1,001

Current replacement cost information. The rules of the Securities and Exchange Commission require that the Company provide certain information to investors regarding the Company's replacement cost of inventories and productive capacity. Such unaudited information is included in the Company's Form 10-K annual report for 1977, filed with the Securities and Exchange Commission, copies of which are available upon request.

Capital expenditures in 1977 and 1976 are shown in the following tabulation:

(In millions)	1977	1976
Land	$ 21	$ 11
Buildings	133	132
Fixtures and equipment	121	111
Leasehold improvements	14	19
Construction in progress and land held for future use	(4)	(40)
Total capital expenditures	$285	$233

Expenditures to renovate stores in 1977 and 1976 were $65 million and $33 million, respectively.

Capital expenditures for 1973-1977 are shown below:

(In millions)	JCPenney stores	Catalog	Other	Total
1977	$144	$53	$88	$285
1976	176	26	31	233
1975	220	24	54	298
1974	141	50	72	263
1973	106	22	82	210

JCPenney stores include expenditures for support facilities directly related to store operations. Included in "Other" in 1977 is approximately $55 million for the purchase of the Company's headquarters building in New York City. This facility was previously leased by the Company.

Liabilities and Stockholders' Equity

JCPenney's long term debt is shown below:

(In millions)	January 28 1978	January 29 1977
8-7/8% sinking fund (commencing 1980) debentures due 1995	$150	$150
9% sinking fund (commencing 1984) debentures due 1999	150	150
5.778% mortgage notes on headquarters building	39	—
4-1/2% Eurodollar subordinated debentures due 1987, convertible at $83.96	35	35
5-1/2% note due 1980	25	—
6% Eurodollar subordinated debentures due 1989, convertible at $54.50	11	11
5.75% to 9.65% Belgian franc loans due through 1980	3	6
Other	2	3
Total long term debt	$415	$355

The indenture relating to the issuance of the Company's 8-7/8% sinking fund debentures contains certain restrictions on the cash purchase of capital stock and the payment of cash dividends. As of January 28, 1978, approximately $1,487 million of reinvested earnings were free of such restrictions. To provide for conversion of debentures, 615 thousand shares of common stock were reserved at January 28, 1978.

Confirmed lines of credit available to JCPenney totaled $903 million, including $873 million available to either JCPenney or J. C. Penney Financial Corporation, none of which was in use. All unused lines of credit are supported by compensating balances, which are also used to compensate the banks for other banking services.

Stockholders' equity increased to $2,167 million at year end 1977 from $1,917 million at year end 1976. Of that increase, $197 million resulted from an increase in reinvested earnings.

The return on stockholders' equity was 15.4 per cent in 1977 as compared with 13.4 per cent in 1976.

The following table shows the changes in outstanding common stock:

	Shares (In thousands)		Amount (In millions)	
	1977	1976	1977	1976
Balance at beginning of year	64,504	63,255	$609	$547
Issued to savings and profit-sharing plan	1,163	1,032	43	53
Stock options exercised	—	1	—	—
Issued under stock bonus plan	268	206	9	8
Other	5	10	1	1
	65,940	64,504	$662	$609

At year end, approximately 3.2 million shares of common stock were reserved for issuance under the stock bonus and stock option plans and for conversion of debentures.

The number of stockholders increased to approximately 83,000 at 1977 year end from about 78,000 at 1976 year end. At 1977 year end, approximately 84,600 employees were the beneficial owners, through the savings and profit-sharing plan, of 6.4 million shares of common stock, which represented 9.6 per cent of shares outstanding.

JCPenney common stock is traded principally on the New York Stock Exchange. It is also listed on the Brussels and Antwerp Stock Exchanges.

Stock bonus plan. A new stock bonus plan, effective January 30, 1977, was approved by stockholders on May 16, 1977 Awards are available to be earned during each of three fiscal years beginning with 1977, based upon profit performance. Under this plan, approximately 279 thousand shares of common stock were earned in 1977. In 1976, 215 thousand shares were earned under the previous plan, which expired at the end of that year.

Stock option plan. On May 16, 1977, the stockholders approved several amendments to the stock option plan effective that date. One amendment extended the term of the plan to January 26, 1980, and another increased the aggregate number of shares reserved for issuance by 1 million shares. Only ten-year non-qualified options may be granted.

Transactions in stock options were as follows:

	1977		1976	
	Shares (In thousands)	Option price	Shares (In thousands)	Option price
Balance at beginning of year	537	$43.44-70.44	414	$43.44-70.44
Granted	577	40.69	164	58.82
Exercised	—	—	(1)	51.50
Expired	(36)	40.69-70.44	(40)	51.50-70.44
Balance at end of year	1,078	$40.69-70.44	537	$43.44-70.44

Under the plan, 1,021 thousand shares are available for option grants through January 26, 1980.

Supplementary Financial Data

Credit sales in 1977 rose to $3.6 billion, up 17.9 per cent from $3.1 billion in 1976. The proportion of credit sales to total sales increased to 42.0 per cent in 1977 from 40.3 per cent in 1976. In computing these percentages, grocery sales and sales in Europe are excluded because the Company does not offer consumer credit in connection with those sales.

Approximately 84.5 per cent of total credit sales was made in accordance with the regular charge schedule, and the balance in accordance with the time payment schedule.

At year end, the number of accounts with outstanding balances was 11.0 million regular charge and 1.5 million time payment. Average account balances and the number of months over which they were collected (average maturities) were as follows:

	Average account balances		Average maturities (In months)	
	1977	1976	1977	1976
Regular	$160	$150	5.3	5.4
Time	323	295	9.9	9.8
All	180	166	5.9	6.0

Account balances in which any portion was three months or more past due represented 2.2 per cent of the amount of customer receivables at year end 1977, compared with 2.3 per cent at year end 1976.

The Company's policy is to write off accounts when a dollar amount equal to a scheduled minimum payment has not been received for six consecutive months, or if any portion of the balance is more than 12 months past due, or if it is otherwise determined that the customer is unable to pay. Collection efforts continue subsequent to write off, and recoveries are applied as a reduction of bad debt losses. Net bad debt losses increased in 1977 to $40 million, or 1.1 per cent of credit sales, from $34 million in 1976, or 1.1 per cent of credit sales.

The net cost of the retail credit operation increased in 1977, as shown below:

(In millions)	1977	1976
Finance charge income	$271	$232
Costs		
Administration and applicable store expenses	144	126
Interest on average receivables less applicable deferred taxes	110	87
Provision for doubtful accounts	48	39
Income taxes	(15)	(9)
	287	243
Net cost of credit	$ 16	$ 11
Net cost as per cent of credit sales	.5%	.3%

Class actions are pending against retailers, including the Company, seeking substantial recoveries and a reduction of monthly finance charges applicable to revolving charge accounts. The ultimate consequences of these actions are not presently determinable but will not, in the opinion of management, have a material adverse effect on the Company's financial position or results of operations.

Advertising expense by the Company for newspapers, television, radio, and other media, excluding catalog preparation and distribution costs, was $224 million in 1977, up from $190 million in 1976.

Interest expense increased to $107 million in 1977 from $88 million in 1976 due to higher interest rates and higher borrowing levels. The following table shows the principal components of interest expense:

(In millions)	1977	1976
Discount on customer receivables sold to J.C.Penney Financial Corporation	$123	$105
Interest on advances from J.C.Penney Financial Corporation	—	(1
Interest on long term debt	32	31
Other interest, net	—	(5
	155	130
Less		
Income before income taxes of J.C.Penney Financial Corporation	44	37
Capitalized interest on construction in progress and land held for future use	4	5
	48	42
Interest expense	$107	$ 88

Capitalized interest is computed by applying the average rate for short term borrowings of J. C. Penney Financial Corporation to the average cost of construction in progress and land held for future use. If interest had not been capitalized, net income would have been reduced $2 million in 1977 and in 1976.

Income tax expense was as follows:

(In millions)	1977	1976
Current		
Federal	$163	$120
State and local	16	18
	179	138
Deferred		
Federal	62	52
State and local	12	4
	74	56
Total income tax expense	$253	$194
Effective tax rate on income before income taxes and other unconsolidated subsidiaries	47.6%	47.1%

Deferred taxes arise principally from deferred gross profit on the balances due on installment sales and from accelerated depreciation.

The effective tax rate differed from the Federal income tax statutory rate of 48 per cent as detailed below:

	1977		1976	
	Amount (In millions)	Per cent of pre-tax income	Amount (In millions)	Per cent of pre-tax income
Federal income tax statutory rate	$255	48.0	$197	48.0
Investment credits	(13)	(2.5)	(11)	(2.7)
State and local income taxes, less Federal income tax benefit	14	2.6	11	2.6
Other	(3)	(.5)	(3)	(.8)
Total income tax expense	$253	47.6	$194	47.1

Taxes other than income taxes, over half of which were payroll taxes, totaled $188 million in 1977, up from $170 million in 1976.

Rent expense for real and personal property increased to $281 million in 1977 from $267 million in 1976.

The Company conducts the major part of its operations from leased premises including retail stores, distribution centers, warehouses, offices, and other facilities. Almost all leases will expire during the next 30 years; however, leases are usually either renewed or replaced by leases on other premises.

The components of rent expense were as follows:

(In millions)	1977	1976
Minimum rent on noncancellable leases	$180	$172
Other rent, including rent based on sales	101	95
	$281	$267

Future minimum annual rents and the present value of the total commitment for all noncancellable leases are as follows:

(In millions)	Total
1978	$ 177
1979	174
1980	170
1981	165
1982	161
Thereafter	2,426
Total	$3,273
Present value (excluding executory costs)	$1,200

In November 1976, the Financial Accounting Standards Board issued the Statement of Financial Accounting Standards No. 13, Accounting for Leases, which specifies certain criteria for classifying leases as capital and operating leases. Subsequent to the issuance of Statement No. 13, the Board issued an interpretation and an amendment and currently has various proposals under consideration to amend and interpret the Statement further. The Company has analyzed the criteria for classifying leases as specified in Statement No. 13, excluding any possible effects of proposed amendments and interpretation. Such analysis indicates that for 1977 and 1976 the amount of the asset and the liability meeting the criteria for classification as capital leases would, in the aggregate, approximate 25 per cent of the present value of all noncancellable leases indicated above. Leases entered into in 1977 did not meet the current criteria for classification as capital leases.

In prior years, the Company made certain disclosures with respect to rent expense and lease commitments in compliance with the then applicable rules and regulations of the Securities and Exchange Commission. Current pronouncements by the SEC require adoption in 1978 of Statement No. 13; accordingly, the financial statements are expected to be restated retroactively in 1978. Applying the present criteria in Statement No. 13, the effect of such restatement on the Company's results of operations for 1977 and 1976 will not be material.

Savings and retirement plans' expenses were as follows:

(In millions)	1977	1976
Pension	$36	$29
Savings and profit-sharing	25	20
Total	$61	$49

JCPenney's principal pension plan, which is noncontributory, covers substantially all United States employees who have completed 1,000 or more hours of service within a period of 12 consecutive months. Current pension costs are funded annually as incurred, and at year end 1977, based upon market valuation of investments, all vested benefits were fully funded.

The unfunded actuarial liability for pension plans at year end was $63 million.

For 1977, the assumed annual rate of future income from pension plan assets was increased to 6 per cent from 5 per cent, and the assumed compound annual rates of salary adjustments and social security adjustments were increased. The effect of these changes in assumptions was to increase pension expense $3 million in 1977.

The savings and profit-sharing plan encourages savings by allocating 4-1/2 per cent of the Company's available profits, as defined in the plan, to participants who save under the plan. The eligibility requirement is the same as that under the Company's principal pension plan.

Condensed financial statements of the principal retirement plans are as follows:

Balance sheet

	Savings and profit-sharing		Pension	
	December 31		December 31	
(In millions)	1977	1976	1977	1976
Assets				
JCPenney common stock at market value: 6.4 million shares in 1977; 5.3 million shares in 1976 (cost: $315 in 1977 and $281 in 1976)	$226	$280	$ —	$ —
Funds with insurance companies	92	98	—	—
Other investments at market value (cost: 1977, $21 and $132, respectively; 1976, $20 and $103, respectively)	20	19	132	108
Other assets, net	26	20	34	26
	$364	$417	$166	$134
Liabilities and equity				
Estimated liability for pensions	$ —	$ —	$166	$134
Participants' equity in savings and profit-sharing plan	364	417	—	—
	$364	$417	$166	$134

Statement of changes in retirement plans' assets

	Savings and profit-sharing		Pension	
	December 31		December 31	
(In millions)	1977	1976	1977	1976
Total assets at January 1	$417	$375	$134	$ 95
Company contributions	25	20	35	27
Participants' contributions	43	42	—	—
Dividends, interest, and other income	15	12	6	6
Market appreciation (depreciation) of investments	(93)	11	(5)	9
Benefits paid	(43)	(43)	(4)	(3)
Total assets at December 31	$364	$417	$166	$134

Store Space Opened in 1977

City, state, shopping center	Gross square feet of store space (In thousands)
JCPenney stores	
First Quarter	
Claremont, New Hampshire	32
Easton, Maryland	19
*Lower Burrell, Pennsylvania (Burrell Plaza)	94
Miami, Florida (Omni International)	209
West Lebanon, New Hampshire	65
*Warren, Pennsylvania	25
Westfield, Massachusetts	51
Oswego, New York	56
Belfast, Maine	22
Hawthorne, California (Hawthorne Plaza)	179
*Kingsport, Tennessee (Fort Henry)	92
*Dunkirk, New York	18
*Modesto, California (Vintage Faire)	172
*Rice Lake, Wisconsin (Cedar)	21
Skowhegan, Maine	51
Kalamazoo, Michigan (Westmaine)	83
Rockland, Maine	30
West Des Moines, Iowa (Valley West)	136
Antioch, California (County East)	91
*West Burlington, Iowa (Westland)	92
Aurora, Illinois (Fox Valley)	216
Orland Park, Illinois (Orland Park)	215
*Gardner, Massachusetts (Gardner Plaza)	27
Pinellas Park, Florida (Pinellas Square)	173
*Blytheville, Arkansas (Town North)	21
*Trenton, Missouri (Eastgate)	16
Second Quarter	
*Alma, Michigan (Northtown Village)	58
*Niles, Michigan (Eastgate)	53
*McAlester, Oklahoma (Tandy Town)	25
*Rolla, Missouri (Forum Plaza)	31
*Pine Bluff, Arkansas	57
*Marshalltown, Iowa (Marshalltown Plaza)	47
*Vineland, New Jersey (Cumberland)	31
*Bartlesville, Oklahoma (Eastland)	31
Clifton Park, New York (Clifton Country)	90
Third Quarter	
*Roseville, Minnesota (Rosedale)	174
*Green Bay, Wisconsin (Port Plaza)	159
Springfield, Massachusetts (Eastfield)	125
*Lewiston, Idaho (Lewiston)	51
*Snohomish, Washington	14
*Sarasota, Florida (Sarasota Square)	138
Cookeville, Tennessee (Cookeville)	34
*Dover, Ohio (Miracle Lane Plaza)	25
Mt. Vernon, Illinois (Times Square)	44
Effingham, Illinois (Village Square)	35
*Princeton, Kentucky	14
Fourth Quarter	
*Merced, California (Merced)	97
Orange, California (Orange)	96
*Rockaway, New Jersey (Rockaway Town Square)	181
Houston, Texas (Greenspoint)	182
*Malvern, Arkansas (Malvern)	13
*Pueblo, Colorado (Pueblo)	96
Sturbridge, Massachusetts (Sturbridge)	53
Columbia, South Carolina (Columbia)	132
*Longview, Texas (Longview)	90
*Gainesville, Florida (Oak)	139
	4,521
Belgium (One store opened)	11
Drug stores and other (34 stores opened)	600
Gross store space opened	5,132

*Relocation of existing store.

Ten Year Operations Summary

J C Penney Company, Inc and Consolidated Subsidiaries

	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
JCPenney full line stores										
Number of stores	460	435	385	354	334	308	270	240	208	176
Net selling space (In million sq. ft.)	40.7	38.6	34.3	31.2	29.2	26.6	22.8	19.4	16.5	13.7
Sales (In millions)	$5,499	4,706	4,067	3,548	3,093	2,550	1,982	1,626	1,327	1,002
Sales per square foot	$ 138	129	125	119	112	103	95	93	91	86
JCPenney soft line stores										
Number of stores	1,226	1,246	1,266	1,289	1,302	1,335	1,370	1,407	1,438	1,476
Net selling space (In million sq. ft.)	14.9	14.9	15.0	15.4	15.7	16.8	17.3	18.0	18.4	19.0
Sales (In millions)	$2,241	2,133	2,135	2,109	2,037	2,063	2,060	2,104	2,145	2,096
Sales per square foot	$ 152	146	141	135	124	121	118	115	115	110
Catalog										
Number of sales centers	1,506	1,442	1,363	1,308	1,243	1,131	1,079	1,019	944	660
Number of distribution centers	4	3	3	3	2	2	2	2	2	1
Distribution space (In million sq. ft.)	8.0	6.1	6.1	6.1	4.1	4.1	4.1	4.1	4.1	2.0
Sales (In millions)	$1,010	848	744	615	509	410	322	261	210	160
Belgian stores										
Number of stores	78	78	79	82	85	88	87	92	95	
Net selling space (In million sq. ft.)	1.8	1.7	1.7	1.7	1.6	1.5	1.2	1.2	1.2	
Sales (In millions)	$ 625	526	469	397	334	262	208	204	84*	
Sales per square foot	$ 214	189	177	147	136	130	118	119	49	
The Treasury stores										
Number of stores	37	37	37	31	25	23	19	13	10	10
Net selling space (In million sq. ft.)	3.6	3.6	3.6	3.1	2.6	2.4	2.0	1.4	1.0	1.0
Sales (In millions)	$ 329	289	304	255	222	183	158	98	88	64
Sales per square foot	$ 92	81	85	91	88	86	90	82	84	84
Drug stores										
Number of stores	299	271	259	255	239	216	205	189	171	157
Net selling space (In million sq. ft.)	2.4	2.1	1.9	1.7	1.5	1.3	1.2	1.0	.9	.8
Sales (In millions)	$ 298	258	231	191	155	132	112	98	84	72
Sales per square foot	$ 142	136	132	121	117	110	111	112	103	95

Catalog merchandise sold through catalog sales centers located in the Company's stores is included in the sales of those stores Total catalog sales shown above include sales by catalog sales centers, by outlet stores, and through mail order

Not reflected above are statistics for the Company s supermarket and Italian operations, which were discontinued in 1977

Sales per square foot include only those stores in operation for the full year

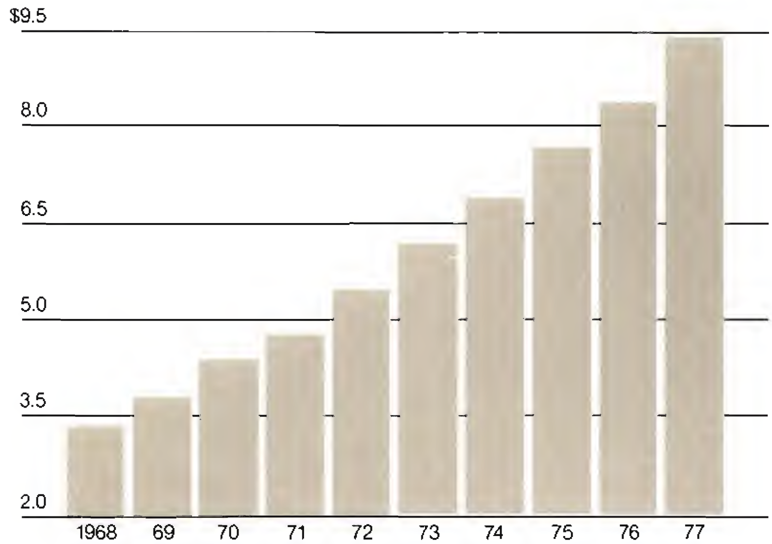
*Reflects sales of Sarma, S.A from July 31, 1969, date of purchase

Ten Year Financial Summary

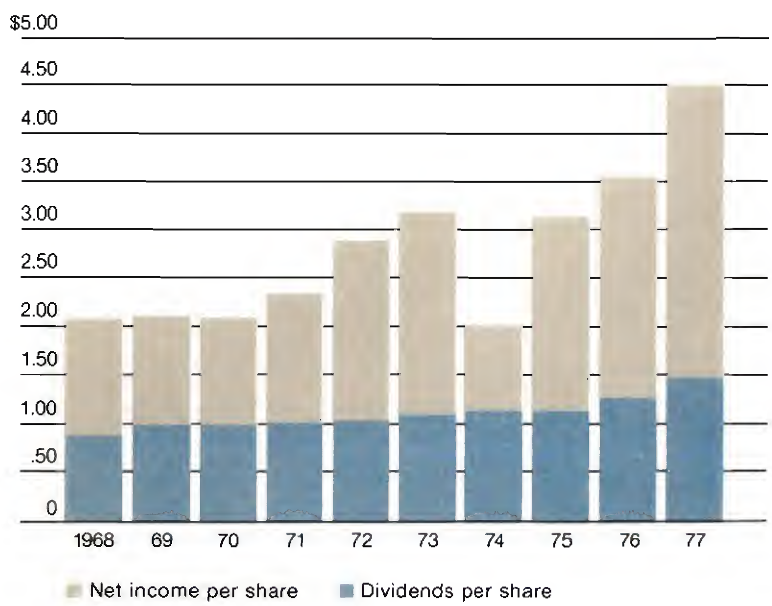
	1977	1976	1975	1974	1973
Results for year (In millions)					
Sales	$ 9,369	8,354	7,679	6,936	6,244
Per cent increase from prior year	12.1	8.8	10.7	11.1	12.9
Credit sales as per cent of sales	42.0	40.3	38.9	39.8	39.4
Costs and expenses excluding interest and depreciation	$ 8,635	7,767	7,151	6,521	5,746
Interest	$ 107	88	101	133	90
Depreciation	$ 96	88	81	71	61
Income before income taxes and other unconsolidated subsidiaries	$ 531	411	346	211	347
Per cent of sales	5.7	4.9	4.5	3.0	5.6
Income taxes	$ 253	194	162	101	171
Net income	$ 295	228	190	119	186
Per cent increase (decrease) from prior year	29.3	20.3	58.8	(35.9)	11.4
Per cent of sales	3.1	2.7	2.5	1.7	3.0
Per cent of stockholders' equity	15.4	13.4	13.5	9.1	16.2
Dividends	$ 97	81	70	68	64
Increase in reinvested earnings	$ 197	151	115	51	122
Capital expenditures	$ 285	233	298	263	210
Per share results					
Net income — primary	$ 4.51	3.57	3.16	2.02	3.20
— fully diluted	$ 4.50	3.56	3.15	2.02	3.19
Dividends	$ 1.48	1.28	1.16	1.16	1.11
Stockholders' equity	$ 32.93	29.78	26.94	23.74	22.43
Common stock price range					
High	$ 45	61	63	79	101
Low	$ 32	43	42	35	59
Price-earnings ratio					
High	12	19	38	25	35
Low	9	11	24	11	19
Financial position at year end (In millions)					
Assets	$ 4,106	3,484	3,226	2,743	2,440
Working funds	$ 1,405	1,233	1,113	890	804
Customer receivables					
J.C. Penney Financial Corporation, net of 5 per cent withheld	$ 1,748	1,342	1,225	1,370	1,190
J.C. Penney Company, Inc., net	$ 462	496	349	87	118
Merchandise inventories	$ 1,706	1,263	1,191	1,219	1,139
Long term debt	$ 415	355	368	373	222
Stockholders' equity					
Beginning of year	$ 1,917	1,704	1,408	1,313	1,152
Conversion of debentures	$ —	—	—	—	1
Stock issued — public offering	$ —	—	131	—	—
Stock issued — employee benefit plans and other	$ 53	62	50	44	38
Increase in reinvested earnings	$ 197	151	115	51	122
End of year	$ 2,167	1,917	1,704	1,408	1,313
Stockholders and employees					
Number of stockholders at year end (In thousands)	83	78	77	76	75
Average number of shares outstanding (In millions)	65	64	60	59	58
Number of employees at year end (In thousands)	193	183	186	193	200

1972	1971	1970	1969	1968
,530	4,812	4,355	3,913	3,379
14.9	10.5	11.3	15.8	15.5
38.7	36.8	36.9	37.4	35.5
,105	4,450	4,032	3,595	3,082
60	54	65	51	31
53	46	38	35	29
312	262	220	232	237
5.6	5.5	5.1	5.9	7.0
155	134	110	121	127
167	135	115	115	112
23.8	17.3	.3	2.6	18.1
3.0	2.8	2.6	2.9	3.3
16.7	17.8	16.8	18.7	20.6
60	55	53	53	47
107	80	62	62	65
186	237	213	176	128
2.90	2.41	2.13	2.14	2.10
2.89	2.38	2.07	2.08	2.06
1.05	1.01	1.00	1.00	.90
9.87	17.45	14.06	12.75	11.47
99	78	62	57	51
67	61	37	44	28
37	33	30	27	25
29	28	18	21	17
,169	1,935	1,719	1,479	1,211
733	554	492	408	422
,043	825	758	675	533
68	47	29	26	57
,047	878	790	717	617
219	212	327	172	125
999	760	686	614	544
15	132	—	—	—
—	—	—	—	—
31	27	12	10	5
107	80	62	62	65
,152	999	760	686	614
74	71	69	67	62
58	56	54	54	53
175	162	152	137	119

Sales (Dollars in billions)



Net Income and Dividends Per Share (Dollars)



In 1974, the Company adopted the last-in, first-out method of inventory valuation for substantially all domestic inventories. In years prior to 1974, inventories were valued under the first-in, first-out method.

J. C. Penney Company, Inc.

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Brussels and Antwerp Stock Exchanges

*Member of the Audit Committee of the Board of Directors.

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